



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Release Number: **200906057**
Release Date: 2/6/09
Date: 11/13/08
UIL Code: 501.07-01

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

Tax Years:

Dear :

This is our final determination that you do not qualify for exemption from Federal income tax as an organization described in Internal Revenue Code section 501(c)(7). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file. File the returns in accordance with their instructions, and do not send them to this office. Failure to file the returns timely may result in a penalty.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at

1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Robert Choi
Director, Exempt Organizations
Rulings & Agreements

Enclosure
Notice 437
Redacted Proposed Adverse Determination Letter
Redacted Final Adverse Determination Letter



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Date: 8/6/08

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

UIL: 501.07-01

Legend:

M =
R =
S =
Date =
State =

Dear :

We have considered your application for recognition of exemption from Federal income tax under Internal Revenue Code section 501(a). Based on the information provided, we have concluded that you do not qualify for exemption under Code section 501(c)(7). The basis for our conclusion is set forth below.

Facts:

Your application Form 1024 and supporting documents show that you were incorporated on Date in State and, soon after, applied for recognition of exempt status under section 501(c)(7) of the Code as a social club. Your Articles of Incorporation state that you are organized as a nonprofit mutual benefit corporation for the specific purpose of networking with vendors and clients within the legal profession.

Your Bylaws state that you are organized for the purpose of pleasure, recreation and other nonprofitable purposes within the meaning of section 501(c)(7) of the Code and, upon dissolution, after paying or adequately providing for the payment of the debts, obligation, and liabilities of the corporation, the remaining assets shall be distributed to a nonprofit fund, foundation or corporation which is organized and operated exclusively for recreational purposes and which has established its tax-exempt status under section 501(c)(7).

You are the parent of two chapter organizations R and S, in different parts of the state that establish and form local sub-chapters for different occupational categories. Each chapter describes itself as "a powerful conduit of professionals dedicated to serving the legal and business communities by offering quality products, service, value and professionalism." In addition, your mission statements provides that members are "focused on providing the best

value and expertise to the businesses we serve." You further state that your members offer "one-stop shopping for your business's needs" and "provide professional services."

You provided a copy of your prospective chapter membership application, which states that it is a condition of membership to have a measurable business presence in the chapter's legal community consisting of current revenue generating clients as well as prospective contacts. The introductory paragraphs of the application state that a "primary objective of the group is to provide a vehicle that aids our clients in achieving their goals plus facilitates giving and getting of referrals for its members. A referral is defined as introducing a member to an individual or company who is interested in the member's products/services, potentially leading to a business transaction." The application further states that organization endeavors include aiding other members in the giving and getting of referrals with "the intent of expanding business development efforts" and expanding the "business contacts of the members." The last question in the application asks what types of leads the applicant can supply the group and what types of leads might benefit the applicant.

Your application and a supplemental statement state that you primarily conduct two activities, members' meetings and sponsoring social events. You state that you conduct monthly members' meetings at the four chapter locations:

At these meetings, the members form relationships with other legal service providers, discuss changes in the industry, provide information on others in the industry, and provide leads and contacts for business development purposes.

Your second activity is sponsoring social events for members and nonmembers. You provided copies of invitations for various events such as mixers, receptions, horse races, and wine tastings. In the invitations, you describe yourself as a unique professional organization with an outstanding reputation, level of commitment to your clients and diversified expertise that has allowed you to be a respected resource center for law firms and businesses. You note that while these sponsored events are social in nature, they provide your clients and members with an "opportunity to enjoy networking with other business professionals."

Your Board of Directors consists of employees of a legal staffing firm, a legal consultancy firm, a court reporter staffing business, a computer services provider, and a legal insurance company. All of your officers are on the Board and three of your four officers are employees of the legal staffing firm. Since you do not have and do not plan to own any facilities, your address is the address of the legal staffing firm. Your Board has sole authority to raise and disburse funds, assign classes of membership, assess different fees, dues and assessments and terminate memberships for nonpayment. Your membership has little to do with your administration and operations, other than to pay dues, fees and assessments and benefit from the meetings and social events. Your membership provides all of your financial support, percent from dues and percent from special event assessments, and, you refer to all paying individuals and corporations as "members" whether they have the right to vote or not.

Your application states that you seek public patronage at your social events and of your referral source line. You added that the events and information are free to the public. You provided a copy of an advertisement to companies in the legal and business community promoting your members as "vendors." The advertisement stated that you check vendor references and that

they primarily offer three types of services, professional, litigation, and specialty. When we requested copies of any materials you distribute to the public relating to your organization, you provided copies of your members' business cards.

Law:

Section 501(c)(7) of the Internal Revenue Code states that clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes are exempt from Federal income tax, provided no part of their net earnings inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(b) of the Income Tax Regulations states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation or social purposes.

Rev. Rul. 58-588, 1958-2 C.B. 265, held that a social club that sells an unlimited number of memberships to so-called "members", who have no voice in the management of the club and whose only rights are to use the club's facilities upon payment of specified fees, is not a tax-exempt social club within the meaning of section 501(c)(7) of the Code. Income from the members was, in reality, income from the general public.

Rev. Rul. 69-527, 1969-2 C.B. 125 holds that an organization formed and operated to study and discuss at weekly luncheon meetings business and financial problems, to interchange among its membership business and financial information in order to create and encourage efficiency in business and finance, and to assist its members in the expansion and development of their individual businesses does not qualify for exemption under section 501(c)(7) of the Code. The ruling holds that the organization is organized and operated primarily to aid its members in their individual business endeavors. The social activities at the luncheon meetings were merely incidental to the business activities of the organization.

Analysis:

Based on the information and supporting documentation you provided in your application, we conclude that you are not operated for the exempt purposes described in section 501(c)(7) of the Code. An organization cannot be recognized as exempt under section 501(c)(7) unless it shows that it is both organized and operated exclusively for pleasure, recreation, and other non-profitable purposes. The governing instrument cannot authorize a club to engage in activities beyond the scope of section 501(c)(7) to a degree to prevent the organization from being described as a social club. Although your Bylaws state that you are organized for section 501(c)(7) purposes, your Articles of Incorporation state that you are organized for the purpose of networking with vendors and clients within the legal profession.

To be operated for the purposes described in section 501(c)(7) of the Code, an organization must have an established membership of individuals who meet to make personal contacts and promote fellowship. The commingling of the members must play a material part in the life of a tax-exempt social club. Your membership requirements are professional, rather than social.

Membership consists of companies as well as individuals who are required to have a measurable business presence in the local community.

Although you engage in social activities that provide members with opportunities to make personal contact and commingle, those activities do not make you a social club, per se. A social club is not organized for exempt purposes if it provides assistance in the form of services to its members, rather than social activities. The facts show that while you conduct social activities, it is primarily done to achieve business objectives rather than to further social purposes. Similar to the organization described in Rev. Rul. 69-527, *supra*, your predominant purpose is the conduct of business, and not to serve any pleasure, recreation, or other similar social purposes of your members as described in section 501(c)(7) of the Code.

Your organization has few of the usual trappings of a social club. The Board does not consist of elected individuals who have a common social purpose. The three Board members who, as officers, control your administration and operations, are also employees of the legal staffing firm. Your Board's overriding purpose is to further the professional rather than the social interests of your membership. You are similar to the organization described in Rev. Rul. 58-588, *supra*, because your members have no voice in management and only have the right to participate in your meetings and events in exchange for specified fees. Unlike most social clubs, you have no swimming pools, golf courses, tennis courts, or other athletic or recreational facilities. Finally, your advertisements promote you as an organization that provides professional services.

To be a tax-exempt social club, you must also demonstrate conclusively that you meet the requirements described in section 1.501(c)(7)-1(b) of the regulations which states that a club which engages in business, such as making its social and recreational facilities available to the general public is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes. The regulations add that solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. Your advertisements, invitations and statements indicate that you seek public patronage at your social events. This fact provides additional evidence that you are engaged in business and are not operated exclusively for pleasure, recreation, or social purposes.

Conclusion:

Based on the information provided in your Form 1024 and supporting documentation, we conclude that you are not operated for pleasure, recreation or other nonprofitable purposes described in section 501(c)(7) of the Code. Such activities engaged in by you are subordinate and merely incidental to the furtherance of your predominant purpose, which is to engage in the business of selling your services of networking and referrals. Accordingly, you do not qualify for recognition of exemption under section 501(c)(7).

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter. We will consider your statement and decide if the information affects our determination.

Your protest statement should be accompanied by the following declaration:

Under penalties of perjury, I declare that I have examined this protest statement, including accompanying documents, and, to the best of my knowledge and belief, the statement contains all the relevant facts, and such facts are true, correct, and complete.

You also have a right to request a conference to discuss your protest. This request should be made when you file your protest statement. An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you. If you want representation during the conference procedures, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. For more information about representation, see Publication 947, *Practice before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to this address:

Internal Revenue Service
TE/GE, SE:T:EO:RA:T:2

1111 Constitution Ave, N.W.
Washington, DC 20224

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Robert Choi
Director, Exempt Organizations
Rulings & Agreements